EXHIBIT

311

Exhibit No.:	311
Issue(s):	FAC
Witness/Type of Exhibit:	Mantle/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2014-0370

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2014-0370

June 5, 2015

OPC Exhibit No. 311
Date 6·15·15 Reporter AT
File No. ER-2014-0370

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.	))))	Case No. ER-2014-0370

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Lena M. Mantle
Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 5th day of June 2015.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman
Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

INDEX

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson City, Missouri 65102. I am a Senior Analyst for the Office of the Public Counsel ("OPC").

Q. ARE YOU THE SAME LENA M. MANTLE WHO FILED DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes, I am.

<u>PURPOSE</u>

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony regarding the fuel adjustment clause ("FAC") filed by Kansas City Power & Light Company (KCPL) witnesses Wm. Edward Blunk, Ryan A. Bresette, John R. Carlson, H. Edwin Overcast, and Tim M. Rush.

Q. HOW IS THIS TESTIMONY ORGANIZED?

A. This testimony responds to nine (9) different FAC topics. More than one KCPL witness provided rebuttal testimony on some of these topics. Therefore, this testimony is organized by topic, instead of by witness. I provide surrebuttal testimony on the following four (4) FAC topics regarding whether or not the Commission should grant KCPL an FAC:

1. KCPL's proposed FAC would not send correct price signals to its customers;

2. The Southwest Power Pool ("SPP") integrated market does not change KCPL's requirement to provide energy to meet its customer's needs;

3. An FAC would change the dynamics regarding fuel and purchased power cost efficiencies; and

4. The impact of an FAC on customer bills.

In addition, I provide surrebuttal testimony on the following five (5) FAC topics should the Commission determine that KCPL should be granted an FAC:

1. Costs and revenues types included in an FAC should remain constant between rate cases;

2. Costs and revenues included in an FAC should be clearly identified;

3. OPC's recommendation regarding the exclusion of costs KCPL is not incurring or expected to incur;

4. Inclusion of fixed costs in the FAC; and

5. The importance of an incentive mechanism in an FAC.

This testimony concludes with response to two tables provided by KCPL witness Rush on pages 28 and 29 regarding the FAC rates for KCPL's affiliate electric utility, KCP&L – Greater Missouri Operations Company.

Q. HAS OPC'S RECOMMENDATIONS REGARDING AN FAC CHANGED SINCE ITS DIRECT TESTIMONY?

A. No, it has not. OPC makes the following recommendations regarding an FAC:

1. Commission should not grant KCPL an FAC because KCPL's request is in direct violation with the *Stipulation and Agreement* filed in Case No. EO-2005-0329, more commonly known as the KCPL Regulatory Plan;

2. If the Commission determines that KCPL has not violated the Regulatory Plan, the Commission should balance the following three criteria in determining whether or not to grant KCPL an FAC:

A. An FAC should be granted to an electric utility only if it is *necessary* to provide a utility with a sufficient opportunity to earn a fair return on equity, which is measured by the following standards:

i. Past and expected changes in the costs and revenues proposed to be included in the FAC are substantial enough to have a material impact upon revenue requirement and the financial performance of the electric utility between rate cases;

ii. Changes in the costs and revenues included are beyond the control of management, where utility management has little influence over experienced revenue or cost levels; and

iii. The costs and revenues included are volatile in amount, causing significant swings in income and cash flows if not tracked.

B. An FAC should be granted to an electric utility only if the proposed FAC is not harmful to ratepayers, which is measured by the following standards:

iv. It does not shift an inappropriate amount of risk regarding the electric utility's fuel and purchased power costs, including transportation, to the customers; and

v. It does not create significant swings in the bills of the customers.

C. An FAC should be in the public interest.

3. If the Commission determines that KCPL has not violated the KCPL Regulatory Plan, the Commission should not grant KCPL an FAC because it has not met the criteria for an FAC; and

4. If the Commission grants KCPL an FAC, it should make the following modifications to the FAC proposed by KCPL:

A. KCPL's FAC should include a mechanism that requires KCPL to absorb 50 percent of any cost increases/revenue decreases and allows it to retain 50 percent of any cost savings/revenue increases;

B. The costs and revenues that are to be included in the FAC should be approved by the Commission and explicitly identified along with the FERC account and the resource code in which KCPL will record the actual cost/revenue;

C. The types of costs/revenues that are included in KCPL's FAC should not change until the next rate case;

D. The FAC should include no costs or revenues that KCPL is not currently incurring or receiving and has not documented that it expects to incur/receive before its next rate case other than insurance recoveries, subrogation recoveries and settlement proceeds related to costs and revenues included in the FAC;

E. The FAC tariff sheets should reflect accurately the accounts and cost/revenue descriptions that are approved by the Commission;

F. KCPL's SO_2 amortization should not be included in its FAC;

G. FAC costs and revenues should be allocated in the accumulation period's actual net energy cost in a manner consistent with the allocation methodology utilized to set permanent rates in this case; and

H. The recovery periods should be changed to October through September and April through March with the corresponding accumulation periods changed to January through June and July through December respectively.

KCPL'S PROPOSED FAC WOULD NOT SEND CORRECT PRICE SIGNALS TO ITS CUSTOMERS

Q. WHICH KCPL WITNESSES PROVIDE TESTIMONY REGARDING THE PRICE SIGNALS OF AN FAC?

A. Beginning on page 18 of his rebuttal testimony, Mr. Blunk discusses the importance of price signals. While Dr. Overcast does not present rebuttal testimony on the price signals to customers, the report attached to his testimony as HEO-2 discusses the importance of price signals to customers.

Q. WHY IS THE TOPIC OF PRICE SIGNALS MENTIONED IN KCPL'S REBUTTAL TESTIMONY?

A. Both Dr. Overcast and Mr. Blunk seem to believe that an FAC sends proper price signals to customers and for this reason KCPL should be granted an FAC.

Q. WHAT CONSTITUTES A PROPER PRICE SIGNAL?

A. A proper price signal gives an accurate cost at the time that it is incurred resulting in a customer reaction to the price signal. Absent other factors such as weather, increasing costs typically result in lower usage and decreasing costs typically result in greater usage.

Q. WOULD THE FAC PROPOSED BY KCPL SEND PROPER PRICE SIGNALS?

A. No, it would not. KCPL's proposed FAC would not provide a price signal in a timely manner. KCPL proposed that the actual FAC costs be accumulated for six (6) months. In some months the costs may be equal to what the customers pay in the permanent rates. In other months the costs may be greater that what is in permanent rates and in some less. The cost that goes into the FAC rate is the aggregate of the difference between actual and base costs in the six (6) month accumulation period. Even if the rate immediately went into effect, it is unlikely that it would be an accurate signal at that point in time.

Furthermore, KCPL's proposed FAC has a three (3) month time period in which FAC rates for the six (6) month accumulation period would be filed and approved by the Commission. This FAC rate would be billed for twelve (12) months - twice as long as the period that the costs were accumulated. The entire period from when the differential in the FAC cost began accumulating until the costs were ultimately billed would be twenty-one (21) months. The price signal from the FAC rate would be neither accurate nor timely.

Q. WOULD THIS PRICE SIGNAL BE MORE CORRECT THAN THE SEASONAL RATE DESIGN OF THE PERMANENT RATES?

A. No. Under an FAC, a customer could be billed on higher rates when fuel cost are low, or may be billed on lower rates when fuel costs are higher. This would be due to the differential between when the FAC costs are incurred and the FAC is billed, combined with the permanent rates, which are higher in the summer months (June through September) when fuel costs are higher. For example, under KCPL's proposed FAC, if fuel costs were lower in October 2015 through March 2016 than what is in permanent rates, customers would see an increase in June 2016 due to the higher summer costs and a reduction in their bills in July of 2016 when the FAC rate would be negative. While this sounds appealing, history has shown that fuel costs are typically higher in the summer months of June through October, which is why summer permanent rates are higher than the rates in the other months. Therefore, the customers would get a price signal that costs are lower during July through September when costs are actually higher. If the customers respond with higher usage because the price signal tells them the costs are lower in the summer when in actuality the costs are higher, the fuel costs would be even higher for the accumulation period that included the summer months.

Q. MR. BLUNK STATES IN HIS REBUTTAL TESTIMONY THAT NOT INCLUDING TRANSMISSION COSTS IN AN FAC WOULD SEND AN IMPROPER PRICE SIGNAL TO KCPL'S CUSTOMERS. IS THIS CORRECT?

A. No. As described above, an FAC does not send proper price signals. The inclusion or exclusion of any specific cost or revenue would not result in a proper price signal being sent to the customers.

Q. DOES ANY FAC RESULT IN PROPER PRICE SIGNALS BEING SENT TO THE CUSTOMERS?

A. No it does not. The Commission should not grant an FAC to KCPL as an effort to provide accurate price signals to KCPL's customers. If anything, an FAC blurs the cost signals to the customers.

In addition, because it is single issue ratemaking, an FAC does not give customers any price signals regarding changes to the other numerous costs that the electric utility incurs. As described above it may work against the price signals that have been incorporated in the permanent rates.

<u>THE SPP INTEGRATED MARKET DOES NOT CHANGE KCPL'S REQUIREMENT TO PROVIDE ENERGY TO MEET ITS CUSTOMER'S NEEDS</u>

Q. PLEASE SUMMARIZE KCPL'S TESTIMONY REGARDING THE IMPACT OF THE SPP INTEGRATED MARKET ON THE FAC.

A. KCPL witnesses Dr. Overcast, Mr. Blunk, and Mr. Rush all discuss the SPP integrated market in their FAC rebuttal testimony. Mr. Blunk states on page 19 that KCPL's generation no longer directly serves its customers. On page 29 of his rebuttal testimony, Dr. Overcast states that I do not seem to understand that the determination of the native load costs that KCPL is proposing to be recovered under an FAC has changed dramatically with the advent of the SPP integrated market. He then goes on to describe how he believes the SPP integrated market impacts KCPL's request for an FAC. Finally, Mr. Rush provides the confusing statement on page 14 of his rebuttal testimony that prices KCPL would reflect in the FAC would be the costs driven by the SPP integrated market, netted against the generation costs incurred by KCPL. He also provides testimony that KCPL has even less control of its generation costs because of the SPP integrated market.

Q. IS MR. BLUNK CORRECT IN HIS STATEMENT THAT KCPL'S GENERATION NO LONGER DIRECTLY SERVES KCPL'S CUSTOMERS?

A. No, he is not. The laws of physics did not change when the SPP began implementing its integrated market. Energy still responds to these laws of physics, which typically means that the energy from KCPL's generating units go to the closest draw of power just as it did prior to the implementation of the SPP integrated market. The energy from KCPL's generation does not now go to the SPP office or dispatch center and then go out to KCPL's customers. What has changed is who determines the dispatch of units, which is based on which units KCPL bids into the SPP market and the price that the units were bid into the market. At its simplest,[1] the SPP pays KCPL for the energy from the units that it dispatches and KCPL pays SPP for the energy that its customers use. It is a financial transaction.

In addition, KCPL is still required by SPP to have generation and generation reserves to meet its load now and in the future. This generation should be determined through a rigorous resource planning process that meets the Commission's resource planning requirements to cost-effectively choose generation that reliably meets the forecasted needs of KCPL's customers' loads. This generation will serve KCPL's load just as its current generation does.

Q. IS DR. OVERCAST'S STATEMENT CORRECT THAT YOU DO NOT UNDERSTAND THAT THE DETERMINATION OF THE COSTS THAT KCPL IS PROPOSING TO BE RECOVERED UNDER AN FAC HAS CHANGED DRAMATICALLY WITH THE START OF THE SPP INTEGRATED MARKET?

A. No, it is not. While the SPP integrated market is fairly new, I have worked with and provided testimony regarding the FAC of Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri") since 2009 which operates in the Mid-Continent Independent System Operator ("MISO") market. Accordingly, I have an understanding of the impact of an integrated energy market on FACs.

[1] There are a multitude of other SPP charges and revenues including ancillary services and congestion fees and revenues.

Q. HAS THE START OF THE SPP INTEGRATED MARKET FUNDAMENTALLY CHANGED THE DAY-TO-DAY DISPATCH OF KCPL'S GENERATING UNITS AND THE NATIVE LOAD COST OF POWER AS DR. OVERCAST STATES ON PAGE 29 OF HIS REBUTTAL TESTIMONY?

A. Dr. Overcast did not provide any information that shows that the day-to-day dispatch of KCPL's generating units has changed or that the native cost of power has changed. While I have not reviewed generating unit information, I do know that, due to the large amount of low-cost power that KPCL generates from its coal generating units and the Wolf Creek nuclear plant, KCPL made a large amount of off-system sales prior to the advent of the SPP integrated market just as it has since the SPP integrated market began in March 2014.

As to the native load cost of power, the cost of meeting KCPL's native load should be the low cost generation of KCPL. The only change that would occur as a result of the SPP integrated market is that KCPL may be able to purchase some energy at a cost lower than it can generate which, if it is the lowest cost energy, should lower the cost to provide service to KCPL's native load customers.

Q. ARE YOUR VIEWS REGARDING FUEL COSTS PREDICATED ON A MARKET CONCEPT THAT IS NO LONGER USED AS DR. OVERCAST SUGGESTS ON PAGE 31 OF HIS REBUTTAL TESTIMONY?

A. No, they are not. Dr. Overcast uses the statement in my direct testimony that an FAC will likely result in more revenues for KCPL as an example of how I purportedly do not understand the new SPP integrated market. It seems to be his testimony that KCPL's fuel costs will be lower than what it estimated in the rate case because of the SPP integrated market.

Q. IF FAC COSTS WERE EXPECTED TO BE LOWER THAN WHAT IS INCLUDED IN REVENUE REQUIRMENT AS DR. OVERCAST SEEMS TO BE IMPLYING WOULD KCPL BE ASKING FOR AN FAC?

A. No, they would not. If KCPL believed that the fuel costs would be lower than the fuel costs used to set the revenue requirement, it would not be requesting an FAC because regulatory lag would result in KCPL collecting more for its FAC costs and revenues than what it would be billing for in permanent rates.

Q. BASED ON YOUR UNDERSTANDING OF ENERGY MARKETS, WHAT IMPACT SHOULD THE SPP INTEGRATED MARKET HAVE ON KCPL'S COST TO MEET THE ENERGY NEEDS OF ITS CUSTOMERS?

A. Conceptually, KCPL's cost to meet the energy needs of its customers should become more stable. KCPL will continue to meet its loads with its low-cost generation and in the few hours that without the integrated market there may have been a need for its higher cost generation, it may now be able to purchase power at a cost lower than its own generation. In addition, KCPL will have the opportunity to make more off-system sales.

However, the true impacts on fuel costs will not be fully known until the market has been operating for a few years.

Q. WOULD THIS STABILIZATION OF COSTS OCCUR FOR ALL OF THE SPP COSTS KCPL PROPOSES BE INCLUDED IN AN FAC?

A. No, it is not. A major part of the SPP costs that KCPL requests be included in its FAC are for building SPP base plan transmission projects throughout the SPP footprint. Without participation in SPP, KCPL would not be incurring these costs. The table shown on page 8 of the rebuttal testimony of John Carlson shows that these base plan project costs are estimated to have large increases through at least 2017.

Q. MR. RUSH STATES ON PAGE 14 OF HIS REBUTTAL TESTIMONY THAT THE PRICES KCPL REFLECTS IN THE FAC ARE THOSE COSTS DRIVEN BY THE SPP INTEGRATED MARKET, NETTED AGAINST THE GENERATION COSTS INCURRED BY THE COMPANY. IS THIS YOUR UNDERSTANDING OF SPP INTEGRATED MARKET?

A. No, it is not. SPP pays KCPL for KCPL's generation that SPP dispatches. SPP charges KCPL for energy to meet the needs of KCPL customers. The revenue for KCPL's generation and the charges for energy are netted. If the charges are greater than the revenues, KCPL is a net purchaser. If the charges are less than the revenues, KCPL is a net seller. However, KCPL's customers still pay the generation costs incurred by KCPL regardless of whether KCPL is a net purchaser or seller.

Q. MR. RUSH, ON PAGE 14 OF HIS REBUTTAL TESTIMONY, IN RESPONSE TO A QUESTION REGARDING THE VOLATILITY OF KCPL'S FUEL PRICES, STATES THAT BECAUSE SPP INTEGRATED MARKET PRICES ARE OUTSIDE OF THE CONTROL OF KCPL, KCPL HAS LESS CONTROL OF ITS FUEL COSTS. SHOULD THAT BE OF CONCERN TO THE COMMISSION WHEN DETERMINING WHETHER OR NOT TO GRANT KCPL AN FAC?

A. No, it should not. As previously discussed, much of KCPL's generation is low-cost coal and nuclear. It also has an efficient combined-cycle plant that uses natural gas as its fuel. These are the generating plants that have in the past provided most of the energy to meet KCPL's load and to make off-system sales. The costs to generate at these plants are likely to be less than the SPP integrated market price. This same generation will be called on by SPP to meet KCPL's load and the load of other SPP member utilities in the future. Therefore, while it is true that SPP's integrated market prices are outside of the control of KCPL, this will not change the generation KCPL uses to meet its customers' needs and make off-system sales or remove KCPL's responsibility for the generation costs.

<u>**AN FAC WOULD CHANGE THE DYNAMICS REGARDING FUEL AND PURCHASED POWER COST EFFICIENCIES**</u>

Q. PLEASE SUMMARIZE KCPL WITNESS DR. OVERCAST'S REBUTTAL TESTIMONY ON THE IMPACT OF AN FAC ON FUEL AND PURCHASED POWER COST EFFICIENCIES.

A. On page 2 of his rebuttal testimony, Dr. Overcast begins his discussion on why an FAC does not impact the incentive for KCPL to be efficient in purchasing and managing its fuel and purchased power costs. To support this position, he cites a New York Public Service Commission order and an article in the 1980 Notre Dame Law Review.

Q. DOES THE NEW YORK PUBLIC SERVICE COMMISSION ORDER SUPPORT DR. OVERCAST'S POSITION THAT INCENTIVES ARE NOT NEEDED FOR

KCPL TO BE EFFICIENT IN PURCHASING AND MANAGING ITS FUEL AND PURCHASED POWER COSTS?

A. No, it does not. The New York Public Service Commission ("NYPSC") order was an "Opinion and Order Concerning Electric Fuel Adjustment Clauses" issued on June 18, 1980. This order concluded the New York Commission's three-year process of reviewing the FACs of electric utilities. One of the issues that it reviewed was "whether existing fuel adjustment clause procedures provide an adequate incentive for utilities to seek the lowest prices for the fuel they purchase."[2] In this order, the NYPSC found that "it would be beneficial to provide some incentives to utilities to keep their efficient units on line and ready for economic dispatch"[3] and "incentive considerations therefore are not trivial when fuel costs are subject to automatic adjustment."[4]

Q. HOW IS THE 1980 NOTRE DAME LAW REVIEW ARTICLE RELEVANT TO THIS 2015 CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION?

A. It is only relevant in that Commissions across the United States of America were facing the same question back in the late 1970's and in the early 1980's as the Missouri Commission is facing now. It is apparent from this article that FACs at that point in time were being granted due to the double digit inflation in the 1970's. In addition, electric usage was increasing at a rate never seen before due to the installation of central air conditioning, and utilities were building additional generation to meet this increased demand.

[2] New York Public Service Commission, Case No. 27137, Proceeding on Motion of the Commission to Investigate FACs of Electric Utilities, Opinion and Order Concerning FACs, Opinion No. 80-24, June 18, 1980, Page 3
[3] Page 25
[4] Page 26

Q. HOW DOES THAT COMPARE TO NOW?

A. Inflation is low to non-existent now. Demand for electricity is increasing but at a very low rate of one to two percent a year.

Q. WHAT WAS OCCURRING IN MISSOURI WITH RESPECT TO FACS DURING THE LATE 1970'S AND EARLY 1980'S TIME PERIOD?

A. In this time period, the Missouri Supreme Court decided *Utility Consumer Council of Missouri, Inc. v. P.S.C*,[5] concluding that FAC surcharges were unlawful because they allowed rates to go into effect without considering all relevant factors. The Court warned that "to permit such a clause would lead to the erosion of the statutorily-mandated fixed rate system." The Court further explained, "If the legislature wishes to approve automatic adjustment clauses, it can of course do so by amendment of the statutes and set up appropriate statutory checks, safeguards, and mechanisms for public participation." While the Missouri Supreme court was not explicit as to what FACs in Missouri would look like, it was concerned about checks and safeguards if an FAC was allowed for Missouri electric utilities.

Q. WHAT WAS OCCURRING WITH REGARD TO THE ELECTRIC UTILITIES IN MISSOURI FROM 1979 THROUGH 2005?

A. In the 1970's, KCPL and Union Electric Company added coal generating plants. In addition, both of these utilities built nuclear power plants that came on line in the mid-1980s. The customers of KCPL and Union Electric Company saw steep rises in their electric rates, not just due to the addition of the generating plants, but also due to the double digit inflation of the 1970s. However, after the rate increases that placed the nuclear plants in rate base, KCPL and Union Electric did not request rate increases until after 2000. In fact, as shown on the chart on page 7 of KCPL witness Darrin R. Ives' rebuttal testimony, KCPL's rates actually decreased in 1994, 1996 and 1999. This chart shows that KCPL did not request a rate increase from 1988 through 2006. This includes a time period of great volatility in natural gas prices in 1999 and 2000.

Because KCPL and Ameren Missouri had excess capacity, Missouri's other electric utilities entered into long-term bilateral contracts with these companies for inexpensive energy during this time period.

Q. WHY DID KCPL NOT ASK FOR ANY RATE INCREASES FROM 1988 THROUGH 2006?

A. During this time period KCPL was taking advantage of regulatory lag. The depreciation of the coal and nuclear plants along with revenue from bilateral contracts from selling its excess capacity and energy resulted in a time period where KCPL, despite changes in fuel costs, the addition of significant natural gas generation, and the rebuilding of the Hawthorn 5 coal plant after an explosion, earned a high enough rate of return that KCPL did not ask for a rate increase from 1988 through 2006.

Q. WHAT WAS THE IMPETUS FOR KCPL'S 2006 RATE CASE?

A. In the Stipulation and Agreement filed in Case No. EO-2005-0329, also known as the Regulatory Plan, KCPL agreed to a rate moratorium through December 31, 2006. The agreement also specified that KCPL would file at least two rate cases with the first

[5] *State ex rel. Utility Consumers Council, Inc. v. P.S.C.*, 585 S.W.2d 41(MO. 1979)

resulting in rates effective after January 1, 2006 and the last being filed eight (8) months prior to the commercial in-service operation date of Iatan 2. The regulatory plan also allowed for 2 additional optional rate cases between the two mandatory rate cases.

Q. WHY IS THIS IMPORTANT TO THIS DISCUSSION OF KCPL'S REQUEST FOR AN FAC?

A. This information is important to show how the industry in Missouri has changed since the 1980 New York Public Service Commission order and the 1980 Notre Dame Law Review article cited by Dr. Overcast. Soon after these were published, KCPL entered into a time period were regulatory lag was in its favor. Now that regulatory lag is no longer in KPCL's favor and it is coming to the end of its regulatory plan, KCPL is asking the Commission to allow it to move its fuel and purchased power risks to its customers.

THE IMPACT OF AN FAC ON CUSTOMER BILLS

Q. WHICH KCPL WITNESS PROVIDED REBUTTAL TESTIMONY ON THE IMPACT OF AN FAC ON CUSTOMER'S BILLS?

A. Mr. Rush stated on page 27 that OPC's position that fuel and purchased power costs were not volatile was inconsistent with OPC's position that KCPL's proposed FAC would create significant swings in customers' bills.

Q. IS THAT A CORRECT REPRESENTATION OF OPC'S POSITION?

A. No. KCPL's proposal to shift all of the cost risk to customers would result in swings in the customers' bills that would be greater than what customers would see without the FAC. It is not OPC's position that it would necessarily result in *significant* swings in customers' bills. However, the inclusion of costs other than fuel and purchased power costs would shift more risk to the customers increasing the potential for significant swings.

COSTS AND REVENUES TYPES INCLUDED IN AN FAC SHOULD REMAIN CONSTANT BETWEEN RATE CASES

Q. WHAT IS OPC'S RECOMMENDATION REGARDING THE COSTS AND REVENUES INCLUDED IN AN FAC?

A. It is OPC's recommendation that the Commission not allow KCPL an FAC. If it does grant KCPL an FAC, it is OPC's recommendation that the Commission approve specific costs and revenues to be included in the FAC and not allow KCPL to include any costs and revenues other than this specific list until its next general rate case when KCPL has the burden to show that any new or additional costs and revenues meet the Commission's criteria for inclusion in an FAC, and other parties have an opportunity to challenge the cost's inclusion in a rate case where all relevant factors are considered.

Q. WHICH KCPL WITNESSES PROVIDED REBUTTAL TESTIMONY REGARDING CONSISTENCY IN THE COSTS AND REVENUES INCLUDED IN THE FAC BETWEEN RATE CASES?

A. KPCL has two witnesses that provide conflicting testimony on setting the costs and revenues that are included in an FAC. Dr. Overcast provides rebuttal testimony on the importance of clearly defining what costs are included in an FAC while Mr. Blunk provides testimony that the Commission should allow changes to what is included in the FAC between rate cases.

Q. WHY DOES MR. BLUNK BELIEVE THAT THE COMMISSION SHOULD ALLOW CHANGES TO WHAT IS INCLUDED IN THE FAC BETWEEN RATE CASES?

A. On page 11 of his rebuttal testimony, Mr. Blunk describes why he believes that limiting the costs that are included in the FAC is a detriment to customers. He states:

> Limiting items included in the FAC to predefined costs currently utilized by the Company would not encourage the Company to use new technologies or strategies that would benefit the customer when the associated costs are not included in the FAC.

Q. DID HE PROVIDE AN EXAMPLE OF SUCH A NEW TECHNOLOGY OR STRATEGY?

A. Yes. The only example that Mr. Blunk used was KCPL's successful challenge of a rail freight rate.

Q. IS THIS A NEW TECHNOLOGY OR STRATEGY?

A. It is not a new technology or strategy. Such a challenge should be pursued as efficient management of costs regardless of whether KCPL has an FAC or not. KCPL's successful challenge of the rail freight rate did not require an FAC as encouragement, and, if KCPL is granted an FAC, it could actually have the opposite effect. If the rail costs were passed through to the customers in an FAC, then KCPL would have no incentive to challenge rail freight rates.

Q. WOULD OPC'S RECOMMENDATION REGARDING NOT ALLOWING ADDITIONAL COSTS AND REVENUES IN THE FAC HAVE RESULTED IN THE OUTCOME OF THIS "STRATEGY" NOT BEING INCLUDED IN THE FAC?

A. No, it would not. OPC recommends including in the FAC revenues such as insurance recoveries, subrogation recoveries and settlement proceeds when such revenues are related to expenses which have been included in the FAC.

Q. DOES THIS STATEMENT OF MR. BLUNK CAUSE ANY OTHER CONCERNS TO OPC?

A. Yes, it does. It seems as if Mr. Blunk is saying that unless KCPL is allowed to include costs in addition to what the Commission might approve, KCPL may not partake in actions that would reduce FAC costs and benefit the customers.

Q. MR. BLUNK OPINES ON PAGE 11 OF HIS REBUTTAL TESTIMONY THAT NOT ALLOWING KCPL TO ADD COSTS TO ITS FAC WOULD BE A DETERIMENT TO CUSTOMERS. DO YOU AGREE WITH MR. BLUNK?

A. No, I do not. In fact, the opposite is true. Allowing KCPL the ability to include different costs to its FAC would be a detriment to the customers. The General Assembly was careful to state that the Commission gets to determine whether or not an electric utility can have an FAC. This is a protection for the customer. Allowing the utility to decide what costs and revenues to include and exclude from its FAC usurps the Commission's authority and nullifies this customer protection. In addition, allowing costs that have not been approved by the Commission in the FAC between rate cases makes prudence audits very difficult.

Q. WHAT IS KCPL WITNESS DR. OVERCAST'S POSITION REGARDING ALLOWING COSTS AND REVENUES INCLUDED IN THE FAC TO CHANGE BETWEEN RATE CASES?

A. The Black & Veatch report Dr. Overcast attached to his rebuttal testimony as Schedule HEO-2, on page 22 states "Adjustment clauses should be free from conflict over their interpretation." Allowing costs and revenues included in the FAC to change between rate cases increases the probability that there would be conflict over the interpretation of the FAC. In addition, page 22 of the same report states "The clause should delineate the costs to be recovered under the adjustment clause with clear definitions for each type of cost to be included." If costs and revenues types are added between rate cases, there is no clear definition of the types of costs to be included.

These statements support OPC's recommendations that the cost and revenue types included in KCPL's FAC should remain constant between rate cases.

<u>IDENTIFICATION OF COSTS AND REVENUES TO BE INCLUDED IN AN FAC</u>

Q. IF THE COMMISSION GRANTS KCPL AN FAC, WHAT IS OPC'S RECOMMENDATION REGARDING WHICH COSTS AND REVENUES SHOULD BE INCLUDED IN THE FAC?

A. It is OPC's position that KCPL did not provide a complete explanation of the costs and revenues that it is requesting be included in its FAC. It is OPC's recommendation that the Commission clearly identify what costs and revenues would be included in KCPL's FAC along with the account, subaccount, resource code and department code (as applicable) in which the cost or revenue is recorded.

Q. DID ANY KCPL WITNESS IN ITS REBUTTAL TESTIMONY PROVIDE ADDITIONAL DETAIL ON THE COSTS AND REVENUES THAT KCPL IS REQUESTING BE INCLUDED IN ITS FAC?

A. The only additional information provided was a definition of FERC Account 501 Accessorial Charges found in Mr. Blunk's rebuttal testimony.

Q. WHICH KCPL WITNESSES PROVIDED REBUTTAL TESTIMONY REGARDING THE IDENTIFICATION OF COSTS AND REVENUES THAT WOULD BE INCLUDED IN ITS FAC SHOULD THE COMMISSION GRANT IT AN FAC?

A. Mr. Rush provided rebuttal testimony regarding the detail necessary to identify the costs and revenues KCPL is requesting be included in its FAC. As described above, Mr. Blunk provided testimony giving greater detail for one cost type – FERC Account 501 Accessorial Charges. Mr. Rush and Mr. Bresette provided rebuttal testimony on the identification of where the costs and revenues would be recorded.

Dr. Overcast again provided testimony that costs in the FAC should be defined clearly, which conflicts with the testimonies of Mr. Rush and Mr. Blunk on the identification of costs and revenues that are included in the FAC.

Q. SCHEDULE LMM-2 IN YOUR DIRECT TESITMONY SHOWED THAT KCPL PROVIDED THREE DIFFERENT LISTS OF WHAT IT PROPOSED BE

INCLUDED IN ITS FAC. WHAT WAS MR. RUSH'S RESPONSE TO YOUR SCHEDULE LMM-2?

A. Mr. Rush stated on page 24 of his rebuttal testimony that each of the three columns represents the same costs.

Q. DO YOU AGREE WITH MR. RUSH?

A. No, I do not.

Q. CAN YOU GIVE AN EXAMPLE OF AN ACCOUNT WHERE THERE ARE DIFFERENT COSTS IN DIFFERENT COLUMNS OF YOUR SCHEDULE LMM-2?

A. Yes, I can. I have reproduced below the section of Schedule LMM-2 that lists the Emission Costs in FERC account 509 that KCPL is requesting be included in its FAC as described in Mr. Rush's direct testimony, responses to Staff and OPC data requests and the exemplar tariff language proposed in Mr. Rush's direct testimony.

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
509000		Emission Allowances	Staff DR 384 & OPC 8003			509		Emission allowance costs offset by revenues from the sale of emission allowances including any associated hedging costs, and broker commissions, fees, commodity based services and margins.
509000		Renewable Energy Credits (Sale of RECs)	509000	6070	WIND REC			
			509000	6075	SO2 AMORTIZATION			
			509000	6080	SO2			
			509000	6085	NOX ANNUAL			
			509000	6171	WIND REC SPEARVILLE 2			
			509000	6173	WIND REC CIMMARON			
			Additional in OPC 8003					
			509000	6178	REC SUBSCRIPTION FEE			

In Mr. Rush's direct testimony he simply states KPCL proposes that Emission Allowances and Renewable Energy Credit (REC) sales would be included in the FAC. In response to Staff data request 384 and OPC data request 8003, KCPL provided a more detailed list of what it was proposing be included: wind RECs, an SO_2 amortization, SO_2, NO_X Annual, and Wind RECs for Spearville 2 and Cimmaron. In addition, in OPC DR 8003, KCPL included REC Subscription fees as an FAC cost that it wanted to be included in its FAC. Lastly, KCPL's exemplar tariff sheet states that the FAC would include emission costs, and hedging costs, broker commissions, fees, commodity based services and margins associated with emission sales and purchases in FERC account 509.

These three definitions are inconsistent. If the Commission approves the exemplar tariff language, KCPL could make a case that the revenue from the sale of RECs should not be included. If the Commission approves what Mr. Rush proposed in his testimony or what was provided in data responses, then hedging costs, broker commissions, commodity based services and margins associated with emission allowance sales and purchases should not be included in the FAC.

Q. WOULD THIS CONFUSION HAVE BEEN ELIMINATED OR REDUCED IF KCPL HAD PROVIDED A COMPLETE EXPLANATION AS REQUIRED BY COMMISSION RULE?

A. Yes.

Q. IS MR. RUSH'S POSITION CONSISTENT WITH KCPL WITNESS DR. OVERCAST REGARDING THE IDENTIFICATION OF COSTS AND REVENUES THAT FLOW THROUGH AN FAC?

A. No, it is not.

Q. WHAT IS KCPL WITNESS DR. OVERCAST'S POSITION REGARDING THE IDENTIFICATION OF COSTS AND REVENUES THAT FLOW THROUGH AN FAC?

A. On page 6 of his rebuttal testimony he states that "The rate case establishes a formula for *certain identified costs*, in whole or in part, to change periodically so that actual costs match actual rates and recovery of those costs." (Emphasis added) On the next page of his testimony, he sates "That formula *is defined in detail and is consistent* with the approved revenue requirements included in base rates to assure that there is no over-recovery or under-recovery of the just and reasonable level of revenue requirements." (Emphasis added).

Q. WHAT REBUTTAL TESTIMONY DID KCPL WITNESS MR. BLUNK PROVIDE THAT SHOWS THE LEVEL OF EXPLANATION PROVIDED BY MR. RUSH IS NOT ADEQUATE?

A. Staff witness Dana Eaves recommended that accessorial charges in FERC account 501 not be included in KCPL's FAC because he did not know what those costs represent. KCPL witness Mr. Blunk, on page 34 of his rebuttal provided an explanation of what accessorial charges represent. I do not know if it will change Staff's recommendation, but it does provide additional information regarding what the "accessorial charges" encompass and it shows that the explanation provided in Mr. Rush's direct testimony is not adequate.

Q. DO MR. RUSH AND MR. BRESETTE AGREE WITH OPC'S RECOMMENDATION THAT ACCOUNTS, SUBACCOUNTS, RESOURCE

CODES AND DEPARTMENT CODES FOR THE COSTS THAT ARE TO BE INCLUDED IN THE FAC BE IDENTIFIED?

A. No, they do not. Mr. Rush proposes that costs only be identified at the FERC account level and the verbiage in the tariff sheets. He states on page 25 of his rebuttal testimony that this would make it simpler to administer, audit and compare to other utilities.

Q. WHAT IS THE PROBLEM WITH MR. RUSH'S PROPOSAL?

A. It would make a detailed audit more difficult because the specific costs and revenues that the Commission approved to flow through the FAC were not identified. It creates the situation that Dr. Overcast warns should be avoided. In addition, it would allow new costs to be included in the FAC between rate cases by simply recording the cost in the FERC account.

Q. WHAT DOES MR. BRESETTE PROPOSE?

A. Mr. Bresette proposes that "just words" be used to identify the costs to be included. It is his position that FERC Accounts, subaccounts and resource codes not be used to identify costs and revenues included in KCPL's FAC.

Q. WHAT IS THE PROBLEM WITH MR. BRESETTE'S PROPOSAL?

A. The problem with Mr. Bresette's proposal is that there is not a consistent set of "words" that describe what goes into the FAC as shown previously in this testimony.

Q. HOW DO YOU RESPOND TO MR. BRESETTE'S STATEMENT ON PAGE 13 OF HIS REBUTTAL TESTIMONY THAT "THE COMPANY DEFINES WHAT IS INCLUDED IN A RESOURCE CODE AND CAN CHANGE THAT DEFINITION

AT WILL, BUT ANY SUCH CHANGE MADE BY KCP&L WOULD HAVE NO EFFECT ON THE FERC ACCOUNT DEFINITION."?

A. If KCPL can change its resource codes at will, then it can make the decision to not change the resource codes. If it believes a resource code that an FAC cost or revenue is recorded in needs to change, then KCPL can change it in the next rate case in which it requests that its FAC be continued.

Q. DO YOU HAVE AN EXAMPLE OF FAC TARIFF SHEETS FILED IN OTHER JURISDICTIONS THAT INCLUDES FERC ACCOUNTS AND SUBACCOUNTS?

A. Yes, I do. The FAC tariff sheets of Rocky Mountain Power that KCPL witness Dr. Overcast provided in his rebuttal testimony is attached to this testimony as Schedule LMM-S-1. These tariff sheets show what costs are included and excluded from Rocky Mountain Power's FAC by FERC account and subaccount.

Q. WHAT IS THE IMPORTANCE OF SUCH IDENTIFICATION OF COSTS?

A. Such identification would reduce conflict over the interpretation of the costs and revenues to be included in the FAC and would provide transparency for prudence audits.

<u>**OPC'S RECOMMENDATION REGARDING THE EXCLUSION OF COSTS KCPL IS NOT INCURRING OR EXPECTED TO INCUR**</u>

Q. WHAT IS OPC'S RECOMMENDATION REGARDING THE EXCLUSION OF COSTS KCPL IS NOT INCURRING OR EXPECTED TO INCUR?

A. Should the Commission grant KCPL an FAC, insurance recoveries, subrogation recoveries and settlement proceeds related to costs and revenues included in the FAC should be in KCPL's FAC. The FAC should include no other costs or revenues that KCPL is not currently incurring or receiving and has not documented that it expects to incur/receive before its next rate case.

Q. WHAT KCPL WITNESS PROVIDED TESTIMONY REGARDING THIS RECOMMENDATION?

A. Mr. Blunk provides a response to OPC's recommendation that insurance recoveries, subrogation recoveries and settlement proceeds related to costs and revenues included in the FAC be included in the FAC.

Q. IS THIS AN ATTEPT BY OPC TO INCLUDE POTENTIAL COST DECREASES WHILE EXCLUDING POTENTIAL COST INCREASES AS MR. BLUNK STATES ON PAGE 10 OF HIS REBUTTAL TESTIMONY?

A. No. Including insurance recoveries, subrogation recoveries and settlement proceeds related to costs and revenues included in the FAC while disallowing the addition of costs is not an attempt to include cost reductions and exclude cost increases.

Q. HOW IS INCLUDING INSURANCE RECOVERIES, SUBROGATION RECOVERIES AND SETTLEMENT PROCEEDS RELATED TO COSTS AND REVENUES INCLUDED IN THE FAC DIFFERENT FROM INCLUDING OTHER COSTS NOT INCURRED OR EXPECTED TO INCURRED?

A. These types of recoveries and proceeds would be received by KCPL due to an unusual cost that is likely to have already flowed through the FAC to the customers. To not include the recoveries and settlements would be one-sided – the customers would pay the extra costs and KPCL would get to keep the recoveries and settlements.

To allow unknown and unidentified fuel, purchased-power, power sales, transportation, and transmission costs and revenues as Mr. Blunk recommends would unnecessarily complicate the FAC. If KCPL does begin incurring an unknown and identified cost that it believes should be included in the FAC and the cost is of a magnitude that it would significantly impact KCPL's rate of return, then KCPL should file a general rate case which would allow the new cost to be included in revenue requirement and, in the rate case, ask for a modification of its FAC. At that time the parties to the general rate case will have the ability to respond to the addition to KCPL's FAC and the Commission will have the opportunity to determine, if it concludes that KCPL's FAC should continue, whether or not this new cost should be included. If it is not of sufficient magnitude that it would significantly impact KCPL's rate of return, then KCPL can wait until its next general rate case and ask that its FAC be modified to include the cost.

Q. WOULD YOU RESPOND TO MR. BLUNK'S STATEMENT ON PAGE 11 OF HIS REBUTTAL TESTIMONY THAT IF OPC'S RECOMMENDATION WAS ADOPTED WHERE THE FAC IS LIMITED TO ONLY PREDEFINED COSTS, THE MILLIONS OF DOLLARS OF BENEFIT OF KCPL PURSUING INSURANCE RECOVERIES, SUBROGATION RECOVERIES AND SETTLEMENT PROCEEDS WOULD FLOW THROUGH THE FAC TO CUSTOMERS BUT LEAVE KPCL TO PAY THE MULTI-MILLION DOLLAR EXPENDITURE THAT MADE THOSE SAVINGS POSSIBLE?

A. Yes, I will. OPC was using the language provided in KCPL's FAC exemplar tariff sheets regarding insurance recoveries, subrogation recoveries and settlement proceeds. OPC would not be opposed to changing the wording in FAC tariff sheets to "net insurance recoveries, net subrogation recoveries and settlement proceeds" to prevent the customers from receiving all of the benefits while KCPL pays for the multi-million dollar expenditure that would make such savings possible.

INCLUSION OF FIXED COSTS IN THE FAC

Q. WHAT IS OPC'S RECOMMENDATION REGARDING THE INCLUSION OF FIXED COSTS IN KCPL'S FAC?

A. It is OPC's recommendation that, should the Commission grant KCPL an FAC, certain fixed costs should not be included in the FAC.

Q. WHAT KCPL WITNESSES PROVIDED TESTIMONY REGARDING THE INCLUSION OF FIXED COST IN KCPL'S FAC?

A. Mr. Blunk and Dr. Overcast provided rebuttal testimony regarding the inclusion of fixed costs in the FAC.

Q. DR. OVERCAST NOTES ON PAGE 28 OF HIS REBUTTAL TESTIMONY THAT ALL FIXED COSTS DO NOT HAVE THE SAME CHARACTERISTICS. DO YOU AGREE WITH DR. OVERCAST?

A. Yes, I do agree that different fixed costs have different characteristics. But there is one characteristic that all fixed costs have in common – given a long enough period of time, they change. Commission rule, and the criteria for determining whether or not an FAC should be granted, requires examination of the volatility of the changes in the cost. Fixed cost are not volatile over the time period that the FAC would be in effect.

Q. DOES THAT MEAN THAT NO FIXED COSTS SHOULD BE INCLUDED IN THE FAC?

A. No. Mr. Blunk brought up an exception that I agree with if the Commission grants an FAC. Even though the cost of nuclear fuel is fairly constant, it needs to be included in an FAC. If it is not, customers will be charged the entire cost of replacement power when there is an outage at the nuclear plant and the nuclear fuel costs that were included in the revenue requirement. If the cost of nuclear fuel is included in the base factor of the FAC, then the customers would only pay the difference between the replacement power and the nuclear fuel already in their permanent rates.

Q. IS OPC RECOMMENDING FIXED COSTS BE INCLUDED IN THE FAC?

A. Only if not including the fixed cost would result in the customers paying for the service twice, such as described with the cost of nuclear fuel.

<u>THE IMPORTANCE OF AN INCENTIVE MECHANISM IN AN FAC</u>

Q. WHAT IS OPC'S RECOMMENDATION REGARDING AN INCENTIVE MECHANISM IN AN FAC?

A. If the Commission grants an FAC for KCPL, it is OPC's recommendation that it include an incentive mechanism that results in 50 percent of the change in the cost from the fuel cost in the permanent rates is passed on to the customers and 50 percent being absorbed by KCPL.

Q. WHAT KCPL WITNESSES PROVIDED REBUTTAL TESTIMONY REGARDING AN INCENTIVE MECHANISM?

A. Mr. Rush and Dr. Overcast provided testimony that no incentive mechanism is needed.

Q. WOULD YOU RESPOND TO DR. OVERCAST'S REBUTTAL TESTIMONY REGARDING AN INCENTIVE MECHANISM?

A. Dr. Overcast provided rebuttal testimony that an incentive mechanism was not needed in an FAC. Although he is not an attorney, it is his testimony, found on page 32, that "the use of any disallowance of costs or refunds under the FAC is contrary to the stated constitutional and regulatory compact provisions that utilities should be afforded a reasonable opportunity to earn the allowed return."

Q. WHAT IS YOUR RESPONSE TO DR. OVERCAST'S STATEMENT?

A. First of all, I am not an attorney either. However, my reading of § 386.266.8 is that the Missouri legislature contemplated that there could be an incentive mechanism in the Missouri FACs. It has also been the position of this Commission that a prudence audit is not a sufficient incentive for efficiency. As a result, the Commission has ordered that a sharing mechanism be included in the FACs as an incentive mechanism for each of the three Missouri electric utilities that have an FAC.

Q. WOULD THE INCENTIVE MECHANISM THAT OPC IS PROPOSING PENALIZE KCPL AS DR. OVERCAST STATES ON PAGE 33 OF HIS REBUTTAL TESTIMONY?

A. No, it would not. The incentive mechanism that OPC is recommending could actually result in KCPL recovering more than 100 percent of its actual FAC costs if KCPL would reduce the FAC costs below what is included in permanent rates.

Q. DR. OVERCAST OPINES ON PAGE 34 THAT CUSTOMERS REDUCING THEIR USAGE DUE TO HIGHER BILLS WOULD BE AN INCENTIVE FOR KCPL TO KEEP ITS FUEL AND PURCHASED POWER COSTS LOW. DO YOU AGREE?

A. No, I do not. The true-up process of the FAC will recover all of the FAC costs regardless of the usage of its customers. In addition, the residential rate design proposal of KCPL which would move more costs to the fixed charge would greatly reduce any incentive for KPCL.

Q. DOES DR. OVERCAST GIVE AN EXAMPLE OF AN FAC OF AN ELECTRIC UTILITY NOT IN MISSOURI THAT INCLUDES A SHARING OF THE DIFFERENCE BETWEEN A BASE AND ACTUAL COSTS?

A. Yes, he does. The first page of the FAC tariff sheets of Rocky Mountain Power included in his Schedule HEO-2 and attached to this testimony as Schedule LMM-S-1, show that the FAC for Rocky Mountain Power includes a mechanism designed to collect or refund 70 percent of the difference between base and actual FAC costs.

Q. ON PAGE 31 OF HIS REBUTTAL TESTIMONY, DR. OVERCAST STATES THAT THE ESTIMATED COST OF CAPITAL BASED ON THE COMPARABLE UTILITIES USED IN DETERMINING THE COST OF EQUITY HAVE FACS THAT REFLECT THE EXISTENCE OF A FULL TRACKING FUEL ADJUSTMENT MECHANISM. IS THIS TRUE?

A. Assuming that "full tracking fuel adjustment mechanism" means 100 percent recovery of costs and revenues in the fuel adjustment mechanism, it is not true. Of the proxy group shown on page 11 of KCPL witness Robert B. Hevert's direct testimony, Duke Energy Kentucky; the Empire District Electric Company; Idaho Power Company, owned by IDACORP, Inc.; PNM Resources, Inc. subsidiary Public Service Company of New Mexico; and Portland General Electric Company all have some sort of sharing mechanism in their fuel adjustment mechanisms.

Q. WHAT IS MR. RUSH'S TESTIMONY REGARDING THE INCLUSION OF AN INCENTIVE MECHANISM IN ITS FAC?

A. Mr. Rush's testimony is similar to the previous statement of Dr. Overcast. On page 10, Mr. Rush states that the vast majority of FACs in place for electric utilities in this part of the country reconcile recovery at the 100 percent level. As shown in the answer to the prior question, there are many electric utilities that do not have recovery at the 100 percent level.

__FAC RATES OF KCP&L – GREATER MISSOURI OPERATIONS COMPANY__

Q. WOULD YOU PROVIDE THE FAC RATES OF KCPL'S AFFILIATE, KCP&L – GREATER MISSOURI OPERATIONS COMPANY ("GMO")?

A. Yes, I will. The table below shows the fuel adjustment rates ("FAR") for each of the accumulation periods for the MPS and L&P customers of GMO.

		MPS		L&P	
	AP	Current Period FAR at Secondary	Difference	Current Period FAR at Secondary	Difference
Mar-08	1	$0.00150		$0.00200	
Sep-08	2	$0.00080	(0.00070)	$0.00230	0.00030
Mar-09	3	$0.00280	0.00200	$0.00310	0.00080
Sep-09	4	$0.00040	(0.00240)	$0.00330	0.00020
Mar-10	5	$0.00080	0.00040	$0.00380	0.00050
Sep-10	6	$0.00140	0.00060	$0.00270	(0.00110)
Mar-11	7	$0.00090	(0.00050)	$0.00280	0.00010
Sep-11	8	$0.00180	0.00090	$0.00190	(0.00090)
Mar-12	9	$0.00470	0.00290	$0.00210	0.00020
Sep-12	10	$0.00010	(0.00460)	($0.00030)	(0.00240)
Mar-13	11	$0.00170	0.00160	$0.00150	0.00180
Sep-13	12	$0.00159	(0.00011)	$0.00060	(0.00090)
Mar-14	13	$0.00043	(0.00116)	$0.00055	(0.00005)
Sep-14	14	$0.00297	0.00254	$0.00342	0.00287
Mar-15	15	$0.00151	(0.00146)	$0.00272	(0.00070)

Q. WHY ARE YOU INCLUDING THIS TABLE?

A. On page 28 of his rebuttal testimony, Mr. Rush provided a table that purportedly shows how the FAC of KCPL's affiliate GMO has "worked." In the testimony he states that there have been increases and decreases to GMO's FAC. The data presented above shows that, while there have been changes to the magnitude of the FAC rates, of the fifteen (15) accumulation periods there has been only one period in which the FAC rate was below zero and that was only for GMO's L&P customers. This means that, of the fifteen (15) accumulation periods, the actual FAC costs have been below base FAC cost only once and that was only for GMO's L&P customers. GMO's MPS customers' FAC charge has been positive – meaning actual fuel costs have always been greater than the fuel costs included in permanent rates.

Q. SHOULD THE COMMISSION EXPECT FUEL COSTS FOR KCPL TO BE SIMILAR TO THE FUEL COSTS OF GMO SHOWN ABOVE?

A. No, it should not. The generation that GMO uses to meet its customers' needs is very different from KCPL's generation. GMO uses much more natural gas fired generation and purchased power to meet its customers' needs. GMO does not have any nuclear generation. In addition, the load served by KCPL is different from GMO's load. KCPL has a greater number of industrial customers whereas GMO's customers are mostly residential and commercial.

Q. WOULD THE FAC PROPOSED BY KCPL "WORK" SIMILAR TO GMO'S FAC?

A. No, it would not. In addition to differences of generation and load, GMO's FAC does not include the SPP base plan funding costs in its FAC. Therefore, the Commission should not assume that the FAC proposed by KCPL would "work" the way that GMO's FAC has worked.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

ROCKY MOUNTAIN POWER

ELECTRIC SERVICE SCHEDULE NO. 94

STATE OF UTAH

Energy Balancing Account (EBA)
Pilot Program

AVAILABILITY: At any point on the Company's interconnected system.

APPLICATION: This Schedule shall be applicable to all retail tariff Customers taking service under the terms contained in this Tariff. The collection of costs related to an energy balancing account from customers paying contract rates shall be governed by the terms of the contract. The EBA Pilot Program shall be for a period of approximately four years beginning October 1, 2011, and ending December 31, 2015. This Tariff will also be used to collect the $20 million dollar of deferred net power cost approved in Docket Nos. 10-035-124 and 12-035-67.

DEFINITIONS:

Actual MWh: The actual MWh sold to retail customers recorded in the Company's billing records..

Base MWh: Retail MWh from the most recent general rate case.

EBA (Energy Balancing Account): The mechanism to collect or refund 70% of the accumulated difference between Base EBAC and Actual EBAC.

EBA Annual Filing Date: On or about March 15 of each year.

EBA Carrying Charge: An annual interest rate of 6% simple interest (.50% per month) applied to the monthly balance in the EBA Deferral Account as described in this electric service schedule.

EBA Costs (EBAC): Actual EBAC and Base EBAC include all components of Net Power Cost (NPC) and wheeling revenue, typically booked to the FERC Accounts described in this electric service schedule.

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

DEFINITIONS: (continued)

Actual Energy Balancing Account Costs (Actual EBAC): The actual Utah NPC and Wheeling Revenues. Adjustments shall be made to Actual EBAC that are consistent with applicable Commission accepted or ordered adjustments, or adjustments called out in a stipulation or settlement agreement, as ordered in the most recent general rate case, major plant additions case, or other case where Base EBAC are approved.

Base Energy Balancing Account Costs (Base EBAC): The Utah allocated NPC and Wheeling Revenues approved by the Commission in the most recent Utah general rate case, major plant additions case, or other case where Base EBAC are approved.

EBA Deferral: The monthly amount debited or credited to the EBA Deferral Account. A positive deferral reflects an under-recovery of EBAC and is debited to the EBA Deferral Account. A negative deferral reflects an over-recovery of EBAC and is credited to the EBA Deferral Account.

EBA Deferral Account: FERC Account No. 182.xx. The EBA Account is a balancing account. A positive (Debit) balance means that EBAC have been under collected from customers. A negative (Credit) balance means EBAC have been over collected from customers.

EBA Deferral Account Balance: The EBA Deferral Account Balance from the previous month plus the monthly EBA Accrual less the current monthly EBA Revenue based on the approved EBA Rate plus the monthly Carrying Charge.

EBA Deferral Period: The calendar year prior to the EBA Filing Date. The first EBA Deferral Period shall be the three-month period from October 1 to December 31, 2011.

EBA Rate: surcharge or surcredit applicable to all retail tariff rate schedules and applicable contracts as set forth in this electric service schedule to collect or refund the EBA Deferral Account Balance. The EBA rate will be a percentage applied to the monthly Power Charges and Energy Charges.

EBA Rate Effective Date: On or before November 1 of each year upon approval by the Commission.

EBA Rate Effective Period: 12-month period beginning on the EBA Rate Effective Date.

EBA Revenue: Revenue collected by multiplying the EBA Rate found in the Monthly Bill section of this schedule by the monthly Power Charge and Energy Charge of the Customer's applicable schedule.

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

P.S.C.U. No. 50 **Original Sheet No. 94.3**

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

Net Power Costs (NPC): the sum of costs incurred to acquire power to serve customers less revenues collected from sales for resale. NPC components are those included in the Company's production cost model and recorded in the FERC Accounts described in this electric service schedule.

Wheeling Revenue: Revenues from Transmission of Electricity of Others recorded in the FERC Account described in this electric service schedule.

EBA PROCEDURAL SCHEDULE (Beginning with the 2013 Annual EBA Filing)

1. Rocky Mountain Power will file its application on or about March 15.
2. The Division of Public Utilities will complete its audit report and supporting testimony by July 15.
3. Intervenors may conduct discovery, with a 14 day turn around, beginning March 15.
4. Hearings on the application will be completed by September 15.
5. Any rate change necessary to recover or refund an EBA balance will take effect on or before November 1 of the year the application is filed.

EBA CALCULATIONS AND APPLICATION

APPLICABLE FERC ACCOUNTS: The EBA rate will be calculated using all components of EBAC as defined in the Company's most recent general rate case, major plant addition case, or other case where Base EBAC are approved. EBAC are typically booked to the following FERC accounts, as defined in Code of Federal Regulations, Subchapter C, Part 101, with the noted clarifications and exclusions:

FERC 501- Fuel

FERC Sub 5011000

SAP 515100 – Coal Consumed-Generation (Include)

SAP (all other) – Legal, maintenance, utilities, labor related, miscel O&M (Exclude)

FERC Sub 5013500 - Natural Gas Consumed (Non Gadsby) Natural Gas Swaps (Non Gadsby) (Include)

FERC Sub (All Other) – Property tax, office supplies, Labor, Fuel Handling, Supplies, Maintenance, Start-up Fuel,

Start-up Fuel Diesel, Diesel Fuel Hedge, miscellaneous O&M, Flyash Sales (Exclude)

EBA FERC 501 Adjustments

FERC Sub 5013500

SAP 515200 – Natural Gas Consumed

Gadsby Related Portion of 515200 is transferred to FERC 547(Fuel-Other Generation)

SAP 515220 – Natural Gas Swaps

Gadsby Related portion of 515220 is transferred to FERC 547(Fuel-Other Generation)

SAP 505917– I/C Nat Gas Cons Ker. This SAP account is transferred to FERC

547(Fuel-Other Generation)

(continued)

Issued by authority of Report and Order of the Public Service Commission of Utah in Docket No. 13-035-184

FILED: September 5, 2014 **EFFECTIVE:** September 1, 2014

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

P.S.C.U. No. 50

First Revision of Sheet No. 94.4
Canceling Original Sheet No. 94.4

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

FERC 447 – Sales For Resale

FERC Sub 4471400
- SAP 301406 – Short-term Firm Wholesale Non Transalta Sales (Include)
- SAP 301409 – Trading Sales Netted-Estimate (Exclude)
- SAP 301410 – Trade Sales Netted (Include)
- SAP 301411 – Bookout Sales Netted (Include)
- SAP 301412 – Bookout Sales Netted-Estimate (Exclude)
- SAP 302751 – I/C ST Firm Whls-Sie (Include)
- SAP 302772 – I/C Line Loss-Nevada (Include)
- SAP 303028 – Line Loss W/S Trading (Include)
- SAP 303100 – Transmission Loss Charge Pass-Through (Exclude)
- SAP 303109 – Transmission Line Loss Rev – Subject to Refund (Include)
- SAP 301409 – Trading Sales Netted – Estimates (Exclude)

FERC Sub 4471300
- SAP 301405 – FIRM Sales (Include)

FERC Sub 4476100
- SAP 304101 – Bookouts Netted – Gain (Include)
- SAP 304102 – Bookouts Netted – Estimates (Exclude)

FERC Sub 4476200
- SAP 304201 – Trading Net- Gains (Include)

FERC Sub 4472000 – Sales for Resale Estimates (Exclude)

FERC Sub 4475000
- SAP 301408 – Off-System Non Firm (Include)

FERC Sub 4479000 – Transmission Services - Utah FERC Customers, Wyo-Pacific Cheyenne (Exclude)

FERC Sub 4471000 – Onsystem Firm - Utah FERC Customers, Wyo-Pacific Cheyenne, Brigham City (Exclude)

EBA FERC 447 Adjustments

1) SAP 301406 - Short-term Firm Wholesale – Transalta Sales are removed from 447 and transferred into 555 (Purchased Power).
2) SAP 505214 – SMUD Purchases from 555 (Purchased Power) are transferred to 447.

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

P.S.C.U. No. 50

First Revision of Sheet No. 94.5
Canceling Original Sheet No. 94.5

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

FERC 555 – Purchased Power

FERC Sub 5552600
SAP 505351 – Electric Swaps G/L (Include)
SAP 505352 – Electric Swaps G/L Estimate (Exclude)
FERC Sub 5551100,1200,1330 - BPA Residential Exchange (Exclude)
FERC Sub 5552500
SAP 505190 – OR Solar Incentive Purchases (Include)
SAP 505206 – Other Energy Purchases, Int (Include)
SAP (All Other) – Exchange Value Purchase, Exchange Value Purchase – Estimate, Purchase Power Expense – Estimate, Renewable Energy Credit Purchase (Exclude)
FERC Sub 5555500
SAP 505207 – IPP Energy Purchase (Include)
FERC Sub 5556200
SAP 304211 – Trading Netted – Loss (Include)
SAP 304213 – Trading Netted – Estimates (Exclude)
FERC Sub 5556300
SAP 505214 – Firm Energy Purchases (Include)
FERC Sub 5556400
SAP 505218 – Firm Demand Purchases (Include)
FERC Sub 5556700
SAP 505215 – Post Merger Imb Charge (Include)
SAP 505220 – Trading Purchases Netted (Include)
SAP 505221 – Bookout Purchases Netted (Include)
SAP 546520 – Operating Reserves Expense (Include)
SAP 505969 – Transmission Imbalance – Subject to Refund (Include)
SAP (All Other) – Bookout Purchases Net – Estimates, Trading Purchases Netted – Estimates, Transmission Imblance Pass-Through Expense, NPC Deferral Accounting Entries, Excess Net Power Cost Amortization Renewable Energy Credit Sales Deferral (Exclude)
FERC Sub 5558000
SAP 505227 – Purchased Power Expense – Under Capital Lease (Exclude)
FERC Sub 5556100
SAP 304111 – Bookouts Netted – Loss (Include)
FERC Sub 5555900
SAP 505224 – Short-Term Firm Wholesale Purchases (Include)
SAP 505931 – I/C ST Firm Pur-Sier (Include)
SAP 505932 – I/C ST Firm Pur-Nev (Include)

EBA FERC 555 Adjustments

1) FERC Sub 5552500
   SAP 505206 – Other Energy Purchases: Remove exchange dollars
2) SAP 301406 - Short-term Firm Wholesale – Transalta Sales are removed from 447 and transferred into 555 (Purchased Power).
3) SAP 505214 – SMUD Purchases are removed from 555 (Purchased Power) and transferred to 447.

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

FERC 565 – Wheeling Expense

FERC Sub 5650000

SAP 546530 – ISO/PX Charges (Include)

FERC Sub 5651000

SAP 506010 – Short Term Firm Wheeling (Include)

SAP 506059 – Wheeling Expense Estimate (Exclude)

SAP 506912 – I/C S-T Firm Wheeling Exp-Nevada Pwr (Include)

FERC Sub 5652500,2700,4600 - Non-Firm Wheeling Expense, Pre Merger Firm Wheeling, Firm Wheeling Expense

Firm Wheeling Expense (Trm) (Include)

SAP 506922 – I/C Non-Firm Wheeling Exp-Nevada Pwr (Include)

FERC 503 Steam From Other Sources

FERC Sub 5030000

SAP 515900 –Geothermal Steam (Include)

SAP (All Other) – Labor, materials and supplies, other miscellaneous O&M (Exclude)

FERC 547 Fuel – Other Generation

FERC Sub 5471000 - I/C Nat Gas Cons Ker, Natural Gas Consumed, Nat Gas Exp – Under Capital Lease, Natural Gas Swaps (Include)

EBA FERC 547 Adjustments

FERC Sub 5013500

SAP 515200 – Natural Gas Consumed

Gadsby Related Portion of 515200 (From FERC 501) is transferred to this FERC account (547).

SAP 515220 – Natural Gas Swaps

Gadsby Related portion of 515220 (From FERC 501) is transferred to this FERC account (547).

SAP 505917- I/C Nat Gas Cons Ker. Some of this SAP account was booked originally to FERC 501. This adjustment transfers the amount in 501 to this FERC account (547).

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

P.S.C.U. No. 50

First Revision of Sheet No. 94.7
Canceling Original Sheet No. 94.7

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

FERC 456.1 Revenues from Transmission of Electricity by Others

FERC Sub 4561100

SAP 505961 – Transmission Imbalance Penalty Revenue – Load (Exclude)

SAP 505963 – Transmission Imbalance Penalty Revenue –Pt to Pt (Exclude)

SAP (All Other) – Primary Delivery and Distribution Sub Charges, Ancillary Revenue, Use of Facility – Revenue, Transmission Resales to Other Parties, Transmission Revenue Unreserved Use Charges Transmission Revenue – Deferral Fees (Include)

SAP 302831 – I/C Other Wheeling Revenue-Sierra Pac (Inlcude)

FERC Sub 4561600

SAP 301912 – Post-Merger Firm Wheeling Revenue (Include)

FERC Sub 4561910

SAP 301926 – Short-Term Firm Wheeling (Include)

FERC Sub 4561920 – Firm Wheeling Revenue, Pre-Merger Firm Wheeling Revenue, Transmission Capacity Re-assignment revenue and contra revenue, Transmission Point-to-Point Revenue (Include)

FERC Sub 4561930

SAP 301922 – Non-Firm Wheeling Revenue (Include)

FERC Sub 4561990

SAP 301913 – Transmission Tariff True-up (Include)

SAP 302990 – L-T Transmission Revenue – Subject to Refund (Include)

SAP 302991 – S-T Transmission Revenue – Subject to Refund (Include)

SAP 305910 – Ancillary Revenue Sch 1 – Subject to Refund (Include)

SAP 305920 – Ancillary Revenue Sch 2 – Subject to Refund (Include)

SAP 305930 – Ancillary Revenue Sch 3 – Subject to Refund (Include)

SAP 305931 – Ancillary Revenue Sch 3a – Subject to Refund (Include)

Accruals or estimates in accounts 447, 555, and 565 will be excluded; rather, expenses and revenue will be accounted for in the months that they are incurred. Adjustments shall be made to Actual EBAC that are consistent with Commission accepted or ordered adjustments, or adjustments called out in a stipulation or settlement agreement, as ordered in the most recent general rate case, major plant addition case, or other case where Base EBAC are approved.

EBA DEFERRAL: The monthly EBA Accrual (positive or negative) is determined by calculating the difference between Base NPC and Actual NPC as is described below.

$$EBA\ Deferral_{Utah,\ month} = [(Actual\ EBAC_{month/MWh} - Base\ EBAC_{month/MWh}) \times Actual\ MWH_{Utah,,\ month}] \times 70\%$$

Where:

$$Actual\ EBAC_{month/MWh} = [(NPC_{TC,\ month,\ actual} / Actual\ MWh_{TC,\ month}) \times S] + (WR_{Utah,\ month,\ actual} / Actual\ MWh_{Utah,\ month})$$

$$Base\ EBAC_{month/MWh} = [(NPC_{TC,\ month\ base} / Base\ MWh_{TC,\ month}) \times S] + (WR_{Utah,\ month,\ base} / Base\ MWh_{Utah,\ month})$$

TC = Total Company

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

EBA DEFERRAL: (continued)

S = Utah Allocation Scalar, a factor to convert Total Company NPC per MWh to fully allocated Utah NPC per MWh. This is necessary because not all NPC are allocated on the basis of MWh. The Utah Allocation Scalar will be calculated and approved in the most recent general rate case, major plant additions case, or other case where Base EBAC are approved.

$WR_{Utah,\ month}$ = Total Company Wheeling Revenue for the month multiplied by the appropriate allocation factors from the most recent general rate case, major plant additions case, or other case where Base EBAC are approved.

EBA Deferral Account Balance: the monthly EBA Account Balance will be calculated as follows:

$$\text{EBA Deferral Account Balance}_{\text{current month}} = \text{Ending Balance}_{\text{previous month}} + \text{Deferral}_{\text{current month}} - \text{EBA Revenue}_{\text{current month}} + \text{EBA Carrying charge}_{\text{month}}$$

EBA CARRYING CHARGE: the EBA Carrying Charge will be calculated and applied to the monthly balance in the EBA Deferral Account as follows:

$$\text{EBA Carrying Charge}_{\text{month}} = [\text{Ending Balance}_{\text{previous month}} + (\text{Deferral}_{\text{current month}} \times 0.5) - (\text{EBA Revenue}_{\text{current month}} \times 0.5)] \times 0.5\%$$

EBA RATE DETERMINATION: Annually, on the EBA Filing Date, Rocky Mountain Power shall file with the Commission an application for establishment of an EBA rate to become effective on the EBA Rate Effective Date of that year. The EBA Deferral Account Balance as of December 31 shall be allocated to all retail tariff rate schedules and applicable special contracts based on the rate spread approved by the Commission. The new EBA rate will be determined by dividing the EBA Deferral Account Balance allocated to each rate schedule and applicable contract by the schedule or contract forecasted Power Charge and Energy Charge revenues. The EBA rate will be a percentage increase or decrease applied to the monthly Power Charges and Energy Charges of the Customer's applicable schedule or contract as set forth in the schedule.

AUDIT PROCEDURES: All items recorded in the EBA Balancing Account are subject to regulatory audit and prudence review. The Division of Public Utilities will complete its audit according to the EBA Procedural Schedule.

(continued)

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

P.S.C.U. No. 50

First Revision of Sheet No. 94.9
Canceling Original Sheet No. 94.9

ELECTRIC SERVICE SCHEDULE NO. 94 – continued

MONTHLY BILL: In addition to the monthly charges contained in the Customer's applicable schedule, all monthly bills shall have the following EBA Rate percentage applied to the monthly Power Charge and Energy Charge of the Customer's applicable electric service schedule. The collection of costs related to an energy balancing account from customers paying contract rates shall be governed by the terms of the contract.

Schedule 1	2.15%
Schedule 2	2.15%
Schedule 3	2.15%
Schedule 6	2.69%
Schedule 6A	3.75%
Schedule 6B	2.69%
Schedule 7*	0.92%
Schedule 8	2.93%
Schedule 9	3.43%
Schedule 9A	3.84%
Schedule 10	2.49%
Schedule 11*	0.92%
Schedule 12*	0.92%
Schedule 15 (Traffic and Other Signal Systems)	2.45%
Schedule 15 (Metered Outdoor Nighttime Lighting)	2.47%
Schedule 21	6.70%
Schedule 23	2.17%
Schedule 31	**

* The rate for Schedules 7, 11 and 12 shall be applied to the Charge per Lamp.
** The rate for Schedule 31 shall be the same as the applicable general service schedule.

ELECTRIC SERVICE REGULATIONS: Service under this Schedule will be in accordance with the terms of the Electric Service Agreement between the Customer and the Company. The Electric Service Regulations of the Company on file with and approved by the Public Service Commission of the State of Utah, including future applicable amendments, will be considered as forming a part of and incorporated in said Agreement.

Issued by authority of Report and Order of the Public Service Commission of Utah in Docket No. 14-035-31

FILED: October 27, 2014 **EFFECTIVE:** November 1, 2014

(Continued from Sheet No. 8.030.2)

FUEL COST AND PURCHASE POWER RECOVERY CLAUSE (FUEL):

The monthly charge of each rate schedule shall be rounded to the nearest .001¢ per kilowatt-hour of sales to reflect the recovery of costs of fossil and nuclear fuels and purchased power (excluding capacity payments) for each kilowatt-hour delivered, including other adjustments. Fuel Costs and Purchased Power Recovery Factors are normally calculated annually, for the billing period of January through December and are adjusted to incorporate changes in costs from one period to the next.

ENERGY CONSERVATION COST RECOVERY CLAUSE (CONSERVATION):

The monthly charge of each rate schedule shall be rounded to the nearest .001¢ per kilowatt-hour of sales to reflect the recovery of conservation related expenditures by the Company. The Company shall record both projected and actual expenses and revenues associated with the implementation of the Company's Energy Conservation Plan as authorized by the Commission. The procedure for the review, approval, recovery and recording of such costs and revenues is set forth in Commission Rule 25-17.015, F.A.C. Energy Conservation Cost Recovery Factors are normally developed annually, for the billing period of January through December and are adjusted to incorporate changes in costs from one period to the next.

For non-demand rate schedules, the Energy Conservation Cost Recovery Charge shall be applied to the customer's total kWh. For Demand rate schedules (other than those listed below), the Energy Conservation Cost Recovery Charge shall be applied to the customer's billing demand as specified by the rate schedule. For Rate Schedule CILC-1, the Energy Conservation Cost Recovery Charge shall be applied to the customer's On-Peak demand. For Rate Schedules SST-1 and ISST-1, the Conservation Reservation Demand Charge (RDC) and Daily Demand Charge (DDC) shall be applied to the On-Peak Standby Demand and the Contract Standby Demand as described in sections (2) and (3) of Demand Charge for each rate schedule.

CAPACITY PAYMENT RECOVERY CLAUSE (CAPACITY):

The monthly charge of each rate schedule shall be rounded to the nearest .001¢ per kilowatt-hour of sales or $.01 per kilowatt of demand to reflect the recovery of capacity costs of purchased power, including other adjustments. Capacity Payment Recovery Factors are normally calculated annually, for the billing period of January through December and are adjusted to incorporate changes in costs from one period to the next.

For non-demand rate schedules, the Capacity Payment Charge shall be applied to the customer's total kWh. For Demand rate schedules (other than those listed below), the Capacity Payment Charge shall be applied to the customer's billing demand as specified by the rate schedule. For Rate Schedule CILC-1, the Capacity Payment Charge shall be applied to the customer's On-peak demand. For Rate Schedules SST-1 and ISST-1, the Capacity Reservation Demand Charge (RDC) and Daily Demand Charge (DDC) shall be applied to the On-Peak Standby Demand and the Contract Standby Demand as described in sections (2) and (3) of Demand Charge for each rate schedule.

ENVIRONMENTAL COST RECOVERY CLAUSE (ENVIRONMENTAL):

The monthly charge of each rate schedule shall be rounded to the nearest .001¢ per kilowatt-hour of sales to reflect the recovery of environmental compliance costs as approved by the Florida Public Service Commission. The Environmental Cost Recovery Factor is normally calculated annually, for the billing period of January through December and are adjusted to incorporate changes in costs from one period to the next.

FRANCHISE FEE CLAUSE:

The Monthly Rate of each rate schedule is increased by the specified percentage factor for each franchise area as set forth in the Franchise Fee Factors which are incorporated by reference as part of this clause and as filed with the Florida Public Service Commission. This percentage factor shall be applied after other appropriate adjustments.

(Continued on Sheet No. 8.032)

(Continued from Sheet No. 8.031)

TAX ADJUSTMENT CLAUSE:

The Tax Adjustment Clause shall be applied to the Monthly Rate of each filed rate schedule as indicated with reference to adjustment.

Plus or minus the applicable proportionate part of any taxes and assessments imposed by any governmental authority below or in excess of those in effect on the effective date hereof, which are assessed on the basis of the number of meters; the number of customers; the price of electric energy or service sold; revenues from electric energy or service sold; or, the volume of energy generated or purchased for sale or sold.

Such taxes and assessments are to be reflected on the bills of only those customers within the jurisdiction of the governmental authority imposing the taxes and assessments.

POWER FACTOR CLAUSE:

The Power Factor Clause shall be applied to the Monthly Rate of each rate schedule containing a specified Demand charge. The Customer's utilization equipment shall not result in a power factor at the point of delivery of less than 85% lagging at the time of maximum demand. Should this power factor be less than 85% lagging during any month, the Company may adjust the readings taken to determine the Demand by multiplying the kw obtained through such readings by 85% and by dividing the result by the power factor actually established at the time of maximum demand during the current month. Such adjusted readings shall be used in determining the Demand.